

**REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL
LEGISLATURE AND COUNCIL ON THE GROUP FINANCIAL STATEMENTS AND
PERFORMANCE INFORMATION OF HIBISCUS COAST MUNICIPALITY FOR THE YEAR
ENDED 30 JUNE 2009**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying group financial statements of the Hibiscus Coast Municipality which comprise the consolidated and separate statement of financial position as at 30 June 2009, and the consolidated and separate statement of financial performance, the consolidated and separate statement of changes in net assets and the consolidated and separate cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages [xx] to [xx].

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these group financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the group financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the group financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the group financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the group financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the

reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the group financial statements.

6. Paragraph 11 *et seq.* of the Standard of GRAP, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Hibiscus Coast Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

8. In my opinion the group financial statements present fairly, in all material respects, the consolidated and separate financial position of the Hibiscus Coast Municipality as at 30 June 2009 and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended, in accordance with the Standards of GRAP and in the manner required by the MFMA.

Emphasis of matters

Without qualifying my opinion, I draw attention to the following matters:

Irregular expenditure

9. As disclosed in note 39.3 to the group financial statements, irregular expenditure to the amount of R1 400 000 was incurred as the municipality did not enter into a service delivery agreement for this payment.
10. As disclosed in note 39.3 to the group financial statements, irregular expenditure to the amount of R147 522 was incurred by the municipal entity as three written quotations were not obtained as required in terms of the supply chain management regulations, paragraphs 12(c) and 17(a) and (c).

Restatement of corresponding figures

11. As disclosed in note 43 to the group financial statements, the corresponding figures for 30 June 2008 have been restated as a result of a change in accounting policy and errors discovered during 2008/2009 in the group financial statements of the municipality at, and for the year ended, 30 June 2008.

Electricity losses

12. As disclosed in note 46 to the group financial statements, electricity losses of R361 469 (7 300 000 kilowatts) were incurred during the year.

Other matters

Without qualifying my opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the group financial statements:

Material inconsistencies in information included in the annual report

13. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the group financial statements.

Unaudited supplementary schedules

14. The municipality provided supplementary information in the Appendix E (1) to the group financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1 Presentation of Financial Statements. The supplementary information set out on pages XX to XX does not form part of the group financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

Non-compliance with applicable legislation

Municipal Finance Management Act

15. The municipality did not ensure that the budget of the municipal entity includes a multi-year business plan for the entity that sets key financial and non-financial performance objectives and measurement criteria as agreed with the parent municipality in accordance with section 87(5)(d)(i) of the MFMA.
16. The municipality did not ensure that the budget of the municipal entity includes a multi-year business plan for the entity that is consistent with any service delivery agreement or other agreement between the entity and the entity's parent municipality in accordance with section 87(5)(d)(iii) of the MFMA.

Governance framework

17. The governance principles that impact the auditor's opinion on the group financial statements are related to the responsibilities and practices exercised by the accounting authority and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below:

Key governance responsibilities

18. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	<input type="checkbox"/>	
Quality of group financial statements and related management information			
2.	The group financial statements were not subject to any material amendments resulting from the audit.	<input type="checkbox"/>	
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	<input type="checkbox"/>	
Timeliness of group financial statements and management information			
4.	The group financial statements were submitted for auditing as per the legislated deadlines in section 126 of the MFMA.	<input type="checkbox"/>	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	<input type="checkbox"/>	
Development and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	<ul style="list-style-type: none"> The municipality and the municipal entity had an audit committee in operation throughout the financial year. 	<input type="checkbox"/>	
	<ul style="list-style-type: none"> The audit committee operates in accordance with approved, written terms of reference. 	<input type="checkbox"/>	
	<ul style="list-style-type: none"> The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA. 	<input type="checkbox"/>	
7.	Internal audit		
	<ul style="list-style-type: none"> The municipality and the municipal entity had an internal audit function in operation throughout the financial year. 	<input type="checkbox"/>	
	<ul style="list-style-type: none"> The internal audit function operates in terms of an approved internal audit plan. 	<input type="checkbox"/>	
	<ul style="list-style-type: none"> The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA. 	<input type="checkbox"/>	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	<input type="checkbox"/>	

No.	Matter	Y	N
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	<input type="checkbox"/>	<input type="checkbox"/>
10.	The information systems were appropriate to facilitate the preparation of the group financial statements.	<input type="checkbox"/>	<input type="checkbox"/>
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(1)(c)(i) of the MFMA.	<input type="checkbox"/>	<input type="checkbox"/>
12.	Delegations of responsibility are in place, as set out in section 79 and 106 of the MFMA.	<input type="checkbox"/>	<input type="checkbox"/>
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.	<input type="checkbox"/>	<input type="checkbox"/>
14.	SCOPA resolutions have been substantially implemented.	<input type="checkbox"/>	<input type="checkbox"/>
Issues relating to the reporting of performance information			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	<input type="checkbox"/>	<input type="checkbox"/>
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.	<input type="checkbox"/>	<input type="checkbox"/>
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Hibiscus Coast Municipality against its mandate, predetermined objectives, outputs, indicators and targets section 87 of the MFMA.	<input type="checkbox"/>	<input type="checkbox"/>
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	<input type="checkbox"/>	<input type="checkbox"/>

19. There was a clear trail of supporting documentation that was easily available and was provided timely. The group financial statements and management information were submitted timely but the financial statements required some material adjustments as a result of outstanding cheques/accounts payable not recorded in the correct accounting period. The key officials were always available and have substantially addressed the prior year findings. The effectiveness of the internal control and governance practices was affected by the inefficiencies of the audit committee and internal control function.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

I have reviewed the performance information as set out on pages xx to xx.

The accounting officer's responsibility for the performance information

20. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000)(MSA).

The Auditor-General's responsibility

21. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the Municipal System Act.
22. In terms of the foregoing my engagement included performing procedures of a review nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
23. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

Findings on performance information

Internal auditing of performance measurements of the municipality

24. The internal auditors of the Hibiscus Coast Municipality did not audit the performance measurements on a continuous basis and did not submit quarterly reports on their audits to the municipal manager and the performance audit committee.

Performance information for the municipal entity not received in time

25. An assessment could not be performed on the reliability of the reported performance information of the municipal entity, as set out on pages xx to xx of the annual report, since the information was not received in time for review purposes.

APPRECIATION

26. The assistance rendered by the staff of the Hibiscus Coast Municipality during the audit is sincerely appreciated.

Pietermaritzburg

31 December 2009



Auditing to build public confidence